SPRINGFIELD POLICE OFFICERS' AND FIREFIGHTERS' PENSION FUND SOLVENCY PLAN

September 2009

Task Force Charge

- Research and investigate pension funding issue to determine scope of problem and level of urgency to solve
- Consider and analyze various potential methods to provide a multi-year plan to:
 - restore/maintain fiscal responsibility of the plan
 - ensure ability to recruit/retain public safety employees
- Meet with all stakeholders to collect input
- Provide written recommendations to Mayor and City Manager, ranking one or more recommended options

The Public Process

- Held more than 20 meetings
- Formed three subcommittees to study issues from specific perspectives
- Heard presentations from more than a dozen stakeholders and interested parties
- Invited public comment at two Town Hall meetings
- Conducted open, transparent process with all Committee of the Whole meetings videotaped for TV and Internet and documents posted on City Web site

SCOPE OF OF PROBLEM

Plan has been underfunded (below 80%) since 2000

The funded ratio has declined significantly since 2000 and is expected to decrease more in 2009

Underfunded \$203 million in March 2009

Investment return of only \$7.1 million cumulative since 2000

Investment Benchmark (8.5% - 7.5%) achieved three times since 2000

Contributions - Disbursements

-\$33.8 million (June 2000 – March 2009) Liability likely to soar in October when ROI may be lowered and mortality tables updated.

\$20-\$50 million increase possible.

Task Force found no indication of nefarious activity

Benefits increased with no identified funding source

Future benefits of active employees near additional \$150 million

Only 52% of 974 in Plan make current monthly contributions

URGENCY OF PROBLEM

52% of Police/Fire payroll now going to fund

Not sustainable

Services being reduced

Budget cuts in City due to dropping sales tax revenues and increasing Pension Fund contributions

FY09: \$7 million cut

FY10: \$5.7 million cut

FY10 General Fund Budget: \$71.5 million

Morale affected with Police/Fire and other City employees

Threat of litigation voiced strongly

Recruiting affected everywhere

Bond rating could be an issue

Employee retention an issue

Voters once turned down sales tax increase

Task Force recommended a major funding commitment was needed before year-end

Task Force Recommendations

Issue

Sales Tax Proposal Option #2

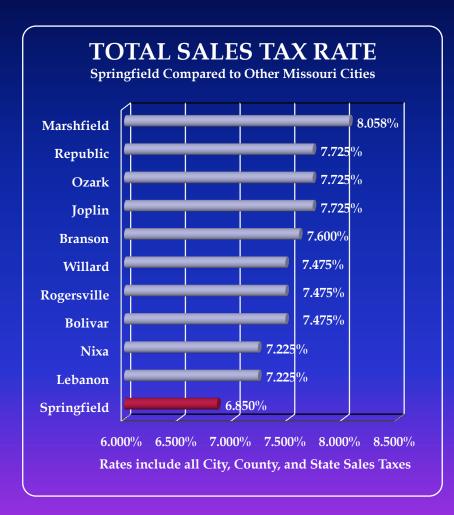
7.5% Assumed Rate of Return

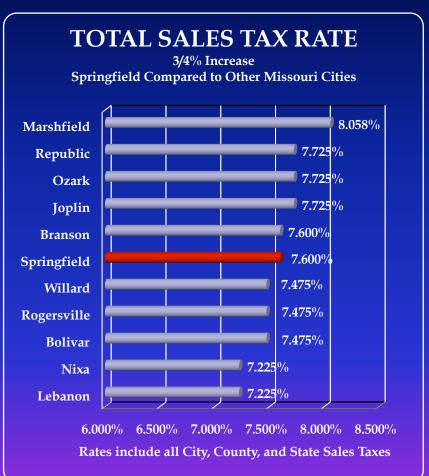
35% City Contribution

(2) 5-year tax periods

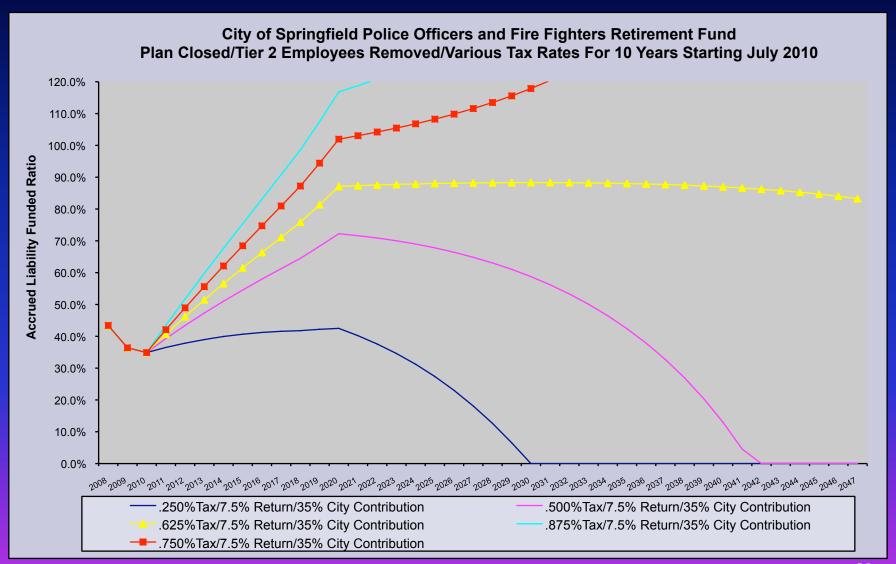
\$28.5 million Projected Revenue

Comparison – 3/4% Sales Tax





7.5% Return / 35% City Contribution



Council approved 3/4-cent recommendation for Nov. 3 ballot

- Council determined that most benefit the Fund with negligible difference in two rate recommendations
- Council determined it to be the best shot at restoring solvency in 10-year period

Task Force Recommendations on Additional Elements Solvency Plan

City Council will consider Resolution soon to complete the elements of the full plan.

Employee Contribution

Employee associations volunteer to negotiate with City on Task Force recommendation to increase their contribution by up to 2 percent of payroll.

Pension Board Structure

City Council Resolution will include restructuring Pension Board to address potential conflict-of-interest issues using two Task Force alternatives as basis for restructuring.

Pension Board Structure Option #1

11-member Board

- * 3 Citizens
- * 1 City Council Member
- * 1 City Human Resources
- * 1 City Finance
- * 2 Police
- * 2 Fire
- * 1 Retiree
- Chair elected by Board and serves one year.

Pension Board Structure Option #2

7-member Board

- * 5 Citizens
- * 1 Police
- * 1 Fire
- Citizens will be appointed by City Manager and approved by City Council.
- Board would hire own independent legal counsel.
- At least one staff serve as non-voting liaison between Board and City.
- Board has power to hire a Director for daily issues.

Council resolution would close pension plan to new employees.

New employees and Tier 2 employees (optional) would move into the LAGERS system, which includes long-term disability coverage.

Task Force to study Tier I migration to LAGERS

A Task Force Subcommittee is being formed to determine feasibility of moving Tier I employees into LAGERS as well.

Telecommunication Settlements

• Council Resolution passed on September 7 recommended the net proceeds from pending telecommunication lawsuit settlements be placed in Pension Fund, above and beyond recommended City contribution.

Sale of City Assets

- Council Resolution to follow Task Force recommendation to sell any unused property, when possible and practical, and invest proceeds into Pension Fund.
- City has 64 properties up for sale; proceeds may be negligible for General Fund/Pension Fund.

Other Issues Considered

Defined Benefit Plan vs. Defined Contribution Plan

The Task Force approved not recommending a Defined Contribution Plan as an option.

Defined Benefit Plan

- Early discussions with LAGERS led to preference
- Will fix long-term problem by placing all new employees in LAGERS
- Cost is lower
- Long-term disability included
- Funding mandatory

Defined Benefit Plan

- LAGERS has better investment track record
- Defined Contribution Plans in public sector not working – some states have abandoned
- Police Officers and Firefighters are hired with career-longevity in mind – DB a selling point
- Defined Contribution Plans exclude LTD Benefit, which can be very expensive

Defined Benefit Plan

- Other public sector employees in Springfield not on DC Plan
- Benefits earned must be paid
- DC Plan could be option for all City employees, but is a decision for the Missouri Legislation.

• ¼-Cent Capital Improvement Program (CIP)

• Task Force recommended the CIP funding continue as is and not be used to fund the Pension system.

Property Tax

• Task Force recommended 1.5 mil property tax not to be enacted to fund the pension shortfall.

City Utilities

• Task Force recommended the Pension Fund not be funded by City Utilities.

Disability Insurance

• Task Force recommended the disability provision continue to be self-insured by the Pension Fund.

Disability Income

• Task Force recommended the Pension Board require a copy of federal income tax statements and copy of W-2's from all that receive disability through the Police and Fire Pension on an annual basis.

Bankruptcy

• Task Force recommended the City not file for bankruptcy.

Summary

- ³/₄-cent tax proposal on Nov. 3 ballot
- City Council to consider resolution on complete plan soon
- November election selected because timing is critical to stem losses; avoid court challenge

Summary, continued:

- Other community priorities on hold
- Plan maintains Springfield's tax base in middle of major Missouri cities

Questions?